



# Revenue Decoupling: New York's Experience & Future Directions

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# Revenue Decoupling Mechanisms

- What is an RDM?
- New York's past experience with decoupling
- Alternatives to decoupling
  - project by project lost revenue recovery
  - third party administration of demand side programs
  - command and control
- Pros and Cons of fully cost based rates
- New directions for New York
- Observations



## Revenue Decoupling Mechanisms (RDM)

What is an RDM?

- Eliminates the linkage between electricity sales and utility revenues and profits.
- Existing utility delivery rate designs are, in most cases, “not optimal”, in that they do not collect all fixed costs through fixed charges and all variable costs through variable charges.
- Sets an allowed revenue or revenue per customer target and reconciles actual differences in a subsequent period, through a bill credit or surcharge.
- Implemented to remove any remaining delivery rate disincentives against a utility’s promotion of energy efficiency, and behind-the-meter renewable technologies, and other forms of distributed generation.

# NYS Past Experience with RDM

- Mechanisms implemented for several utilities in early 1990's (prior to restructuring)
  - O&R, NMPC, Con Edison
  - Post broad-based RDM, ten year planned DSM expenditure increases, on avg., 370%
  - At four non-RDM utilities, ten year planned DSM expenditures significantly exceeded 370%
    - (net-lost revenue recovery based on measured results)
  - DSM Incentives and State Energy Efficiency Goals may have been primary driver of increases

# NYS Past Experience with RDM (cont'd)

- Concerns raised regarding RDMs
  - Skewed price signals (“bundled” rates)
  - Large utility accruals
  - Customer bill volatility
  - Reduced incentives for economic development
- Actual Impacts
  - Revenue reconciliations ranged from a 0.2% annual decrease at O&R to a 2% increase (capped) at NMPC
  - Isolated effect on utility behavior difficult to determine
  - Utility concerns regarding impending competition and rising rates eventually dampened enthusiasm regarding DSM

# Problems less likely to be realized today because:

- Substantial progress made since the 1990's in moving fixed costs out of volumetric delivery charges
  - Reduced unrealized revenues and smaller true-ups
- After restructuring, revenue decoupling would apply to delivery revenues only in New York State
  - Market price signals for commodity would be unaffected
- Decoupling can be targeted to specific classes
- More frequent true-ups enabled by improved metering technology

# Alternatives to Revenue Decoupling

- Project specific lost revenue recovery
  - Petition for recovery of verified net lost revenues resulting from utility-sponsored energy efficiency programs
  - Such mechanisms can be complex
- Third party administration
  - NYSERDA and the System Benefit's Charge since 1998
  - But, utilities have dismantled DSM delivery infrastructure

# Alternatives to Revenue Decoupling (cont)

## “Command and Control”

- United Nations: “Cuba has solved its energy crisis without sacrificing its environment”
- “Fidel Castro leads sweeping new energy revolution”
  - Overhaul of antiquated energy grid
  - Adoption of renewable fuels
  - Government led conservation drives



## Alternatives to Revenue Decoupling (cont)

- Cost Based Delivery Rates
  - Movement towards fully cost-based rates can provide improved price signals and significantly reduce utility disincentives to promote conservation programs.
    - Increased recovery of fixed delivery system costs through fixed rather than volumetric charges
  - But, fully cost based delivery rates raise serious issues regarding equity impacts and customer incentives to conserve energy

# Bill Impacts of Fully Cost-Based Rate Design National Grid - SC1 – Residential Rates

<u>kWh Usage</u>	<u>Bills under current rates</u>	<u>Bills with all fixed costs in customer charge</u>	<u>\$ Increase</u>	<u>% Increase</u>
200	\$43.86	\$62.09	\$18.23	41.6%
630	\$102.25	\$102.25	(\$0.00)	0.0%
1,500	\$220.39	\$183.44	(\$36.95)	-16.8%

# New York's Preferred Approach: Combined Strategy

- Combination of:
  - Revenue Decoupling for mass-market customer classes
  - Fully cost-based (hourly) rates for larger commercial and industrial customers
- Increase the frequency of true-ups
- RDM, in tandem with cost-based rate methodologies, enables rate structures that:
  - Provide appropriate price signals,
  - Helps to promote and expand energy efficiency and other behind-the-meter initiatives, while
  - Mitigating significant customer bill impacts.

## Commission Decoupling Order (Case 03-E-0640, Issued April 20, 2007)

- Electric and Gas utilities required to develop true-up based revenue decoupling mechanisms
  - To be designed and implemented in individual utility rate cases, involving all interested parties
  - In existing cases, supplemental procedural phases should be established

# Reasons for Recent Actions

- Complements New York's 15 X 15 Energy Efficiency Initiative
  - Reduce 2015 electricity sales by 15% from currently projected levels
- Need to “re-engage” utilities in the delivery of energy efficiency programs – in conjunction with NYSERDA
- Sets the stage for consideration of future utility programs, and any associated incentives